

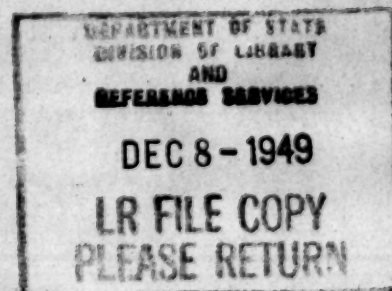
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ECONOMIC DEVELOPMENTS IN CHINA, 1948

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ECONOMIC DEVELOPMENTS IN CHINA, 1948

SUMMARY OF TRENDS

The outstanding economic development in China during 1948 was the progressive contraction of the area under the control of the National Government. Territorial losses-- and with them an accelerating rate of disruption of normal economic ^{activity} ~~activities~~-- have led directly to a severe deterioration in the economic position of the National Government.

Two cases-- coal and foodstuff supplies-- most fully exemplify the relationship between military defeat and economic deterioration. Coal production in China during 1948 was at approximately the same level as 1947. Supplies reaching consuming areas, however, were sharply reduced, particularly during the latter half of the year, as mining areas fell into Communist hands and transportation lines were destroyed or lost.

The output of foodstuffs in 1948 reached a postwar peak, at a level roughly equal to that of prewar years. In the face of this recovery in the agricultural regions, China's urban centers were able to meet their food requirements only with the assistance of receipts from abroad. Factors ~~directly~~ contributing to this situation were Communist captures of producing areas, as in Manchuria; the disruption of distribution patterns, a general phenomenon in the area north of the Yangtze affected by military operations; and, with the drastic depreciation in the value of the currency and for a period because of governmental price fixing policies, an increasing unwillingness on the part of farmers to market their crops.

Similar trends could be noted in other sectors of the economy. Industrial production, as reflected in mill output of cotton textiles, held up during the first half of the year at 1947 levels and then began to drop sharply. Operable rail mileage in Nationalist hands ^{was} ~~were~~ reduced by 2500 ~~mi~~

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despite the rehabilitation of lines in the south. Shipping capacity was increased but the pressure of military needs limited the amount available for commercial requirements, ~~and~~ air traffic boomed under the necessity to supply cities besieged by Communist armies. With producing areas passing into Communist hands, transport facilities reduced, and price relationships distorted, the exchange of commodities between city and countryside markedly declined. During the last few months of the year, important cities in North and Central China ^{had been} ~~were~~ virtually cut off from major supply sources and economic activity had become demoralized. The deficit on foreign trade account had narrowed during the year but only at the expense of cutting down on commercial imports of essential commodities. ECA ~~financial~~ imports in the latter part of the year, played a major role in supplying urban areas with essential food and raw materials.

Future trends are of course dependent on military developments. At the present time, it is evident that the government's economic position is extremely precarious. If the military position were to be stabilized at some point short of the Yangtze, the Chinese economy would be greatly distorted. New sources of supply for food, fuel, and other raw materials would have to be found and existing panic conditions brought under control.

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ECONOMIC DEVELOPMENTS IN CHINA, 1948

A. Agricultural Production

1. Food Crops

Output of food crops in 1948 is expected to be at or slightly below prewar levels (1931-37 average) despite the effect of civil war. Rainfall has been favorable in North China, and in the Yangtze Valley and South China the influence of summer floods and periodic draught has been offset by otherwise satisfactory crop conditions. Comparison of estimated food output by major crops in 1948 with the prewar average is shown below in Table 1.

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Table 1. China: Food Output, 1948 and 1931-37 AND 1948
(revision m.t. milled rice equivalent)
1,000,000 metric tons

Crop	Conversion (in percentage) Rate 1	1931-37	1948	1931-37	1948
Rice	74%	33.8	33.5		
Glut. Rice	74%	3.3	2.1		
Wheat	79%	17.2	20.2		
~~Subtotal~~		~~54.3~~	~~55.8~~	~~94.7~~	~~99.8~~
Barley	70%	5.5	5.4		
Kaoliang	88%	6.1	5.6		
Millet & ~~Peanut~~	88%	7.2	7.3		
Corn	88%	5.7	6.6		
~~Subtotal~~		~~24.6~~	~~24.9~~	~~24.6~~	~~24.9~~
Total, cereals		78.9	80.7	78.9	80.7
Sweet Potatoes	30%	5.6	7.5	5.6	7.5
Soybeans	88%	5.3	5.3		
Field Beans	88%	2.8	2.7		
Broad Beans	88%	2.6	2.7		
Total, legumes		10.7	10.7	20.2	20.7
Rapeseed	65%	1.6	2.1		
Peanuts	55%	1.5	1.7		
Sesame seed	80%	0.7	0.8		
Total, oilseeds		3.8	4.6	4.6	4.6
~~Grand Total~~		~~99.0~~	~~103.5~~	~~99.0~~	~~103.5~~

1. As used by National FAO Council of China and U.S. Agricultural Attache.

2. The most recent estimates of the NARB, the final estimate of the 1947-48 winter crops and the second estimate of the 1948 summer crops, place the comparable total output at 98.5 million m.t. These estimates, however, are based on revisions in the crop reporting base, rather than a change in the crop outlook, and have not been accepted by the U.S. Agricultural Attache. For this reason, the latest estimates previous to the revision in reporting procedure (1st estimate, 1948 summer crops and 2nd estimate, 1947-48 winter crops) have been used.

By major areas, ^{post} output compares favorably with that of prewar ^{output} in all but the North Coast region (Hopei and Shantung), where the crop is 95 per cent of prewar but appreciably above the poor 1947 crops. ^(See 2.) The following table shows the distribution of the above output by areas:

CHINA: ^{Little in caps}
Table 2. Food Output in 1931-37 and 1948 by Major Areas
(in million m.t., milled rice equivalent)
_{1,000,000 metric tons}

Crops	North Coast	North Central	Lower Yangtze	Middle Yangtze	Szechwan	South China	All Other
<u>1931-1937</u>							
189 Rice & wheat	4.4	4.8	12.6	11.0	7.1	10.9	3.5
190 Coarse grains	8.3	5.2	3.3	1.5	2.8	0.5	3.0
→ Total cereals	12.7	10.0	15.9	12.5	9.9	11.5	6.5
141 Sweet potatoes	1.1	0.7	1.0	0.7	0.8	1.1	0.1
Legumes	2.1	1.4	2.7	1.5	1.7	0.5	0.9
Oilseeds	0.8	0.4	0.7	0.7	0.6	0.3	0.2
645 TOTAL	16.7	12.5	20.3	15.4	13.0	13.4	7.7
<u>1948</u>							
14 Rice & wheat	4.0	5.8	13.9	10.8	7.2	10.3	4.1
Coarse grains	8.0	5.5	3.6	1.4	2.9	0.6	2.8
Total cereals	12.0	11.3	17.5	12.2	10.1	10.9	6.9
141 Sweet potatoes	1.3	1.3	0.9	0.9	1.0	1.9	0.1
Legumes	1.8	1.2	2.6	1.4	2.0	0.5	1.3
Oilseeds	1.9	0.6	0.7	0.9	0.5	0.4	0.5
645 TOTAL	16.0	14.4	21.7	15.4	13.6	13.7	8.8

21. North Coast, Hopei and Shantung; North Central, Shensi, Shansi and Honan; Lower Yangtze, Kiangsu, Anhwei and Chekiang; Middle Yangtze, Hupei and Hunan, and Kiangsi; South China, Kwangsi, Kwangtung, and Fukien; All Other, Southwest, Northwest, and Inner Mongolia.

area)

In the North Coast, where a wartime reduction in acreage has not been made up (the acreage of the winter and summer 1948 crops were down a quarter and a tenth, respectively, ^{as compared with} 1931-37), favorable growing conditions brought total output near prewar levels. In the North Central area, food output was 15 per cent greater than prewar, due particularly to an increase in wheat acreage and yield in Shensi and an increase in potato acreage in Honan. In the Lower Yangtze a better-than-average rice yield boosted output to 7 per cent above prewar. In the Middle Yangtze rice acreage and output was down in Hupei and Hunan because of ~~Yangtze~~ floods, but an increase in Kiangsi rice acreage brought total output up to the prewar average. In South China continuing food shortages are forcing the shift of riceland to the more intensive crop of sweet potatoes, and despite a reduction in cereal production and in total acreage, food output is above prewar levels.

Perhaps the most important factor in the 1948 crop production is that no major area had poor crops. Moreover, whether or not the 1948 ~~estimates prove to have been fully accurate,~~ ^{estimates prove to have been fully accurate,} ~~and output is above or slightly below (as in the latest revised estimates) the 1931-37 average,~~ ^{food output was} ~~it is~~ substantially above production in 1946 and 1947.

In the light of these facts, it is clear that serious food shortages will arise in 1949 not because of poor crops but because of disturbed economic conditions resulting from the military impasse. In the lower Yangtze valley, for example, food distribution channels to Shanghai were completely disrupted at the end of 1948 due to widespread loss of faith in the currency and the inability to institute large scale barter trade as an effective substitute. Similarly in North China the economic blockade of the Peiping-Tientsin area had increased ^{the dependence} ~~the dependence~~ of these cities on food imports from Central China and abroad.

Table III

Total Crop Estimates
(in million m.t., milled rice
equivalent)

<u>Period</u>	<u>Output</u>
(1931-37 Aug.)	99.0
(1946 (revised))	96.5
1947 (revised)	96.7
1948 (as shown above)	103.5
1948 (revised)	98.5

Food shortages which develop in 1948-49 will not be due to poor crops, but rather to political and economic obstacles in the collection, marketing, and distribution of the agricultural output.

2. Industrial Crops

Industrial crops continued to be depressed with the continued disruption of transport and marketing and the consequent low farm prices. Cotton production in 1948 was up slightly from 1947 at 2.2 million bales, but still far below the 1936 peak of 3.6 million bales. Silk production continued to receive heavy government aid and subsidization, and the estimated 1948 output of filature and native raw silk was placed at 71,500 bales, up 18 per cent from 1947, despite poor export markets. Tobacco is apparently an exception with the 1948 crop estimated at a peak level of 240 million ^{pounds} ~~lbs.~~ compared with 1947 production of 135 million ^{pounds} ~~lbs.~~ and the prewar peak in 1937 of 210 million ^{pounds} ~~lbs.~~ This has been due particularly to the heavy demand for cigarettes which has inspired a large expansion in West China production to compensate for the loss of other major producing areas to the Communists. Tea output will probably, as in 1946 and 1947,

analysis

remain at about half of prewar production of 600 to 800 million

~~tons~~^{pounds}, due to the distorted domestic price structure and generally depressed conditions in the industry.

B. Mining and Industrial Production

The industrial sector of the economy during 1948 increasingly felt the restrictive influence of distorted prices, disrupted communications, and in some cases virtual economic isolation arising from the civil war. Although some improvement was effected in areas removed from the fighting zone, output in general remained at low levels and rehabilitation needs continued to be largely neglected.

Shanghai's industry, protected to some extent by the inflow of foreign supplies, managed to operate at 1947 levels during the first half of the year despite intermittent power and raw material shortages. ^{the latter months of 1948} In recent months, however, ~~the~~ inability to replenish working inventories at price ceilings fixed by the economic reform measures of August together with the cessation of coal shipments from North China curtailed industrial activity. Some progress in industrial recovery was reported in the Wuhan area during the first ~~3~~ three quarters of the year especially with respect to cotton textile production, and in Formosa, sugar, coal, and chemicals were produced in greater quantity than in the preceding year but at levels substantially below war period rates. The projected reconstruction and development of industry in Kwangtung had still failed to materialize but some advances had been made in the production of sugar, cement, textiles, and electric power. Industry in the North, however, progressively deteriorated during the course of the year. The ~~eventual~~ collapse of Nationalist resistance in Manchuria in November was preceded by a period in which industrial facilities in the Mukden-Chinhhsien area were operated at minimal levels as Communist control

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was extended over the surrounding area. Similarly the reduced flow of commodities between city and countryside in North China caused power and raw material shortages that effectively blocked the recovery of industrial output.

1. Mining

Coal production in Nationalist China during 1948 was approximately equal to the 1947 level, but increased transportation difficulties and the precarious military position of important mines North of the Yangtze during the latter part of the year impeded the distribution of output to the major coal consuming cities. The most critical area in this respect is the North Hopeh site of the Kailan mines. This area produced approximately one-third of China's postwar coal output and supplied Shanghai, Tientsin, and Tsingtao with most of their coal requirements. The ~~recent~~ ^{loss} capture of the port of Chinghuangtao has effectively immobilized the output of these mines, with the result that a stockpile of close to 1,000,000 m.t. is reported to have accumulated. Similarly, the blocking of transport channels from the mines in the Central Yangtze, reflected in increased stockpiles at the mines, has further reduced the flow of coal to Shanghai. On the basis of the data appearing below in Table 3, the Communists have already captured or seriously threaten mines that produced approximately 60% ^{percent} of Nationalist China's coal output in 1948.

Table 3. COAL OUTPUT IN MAJOR PRODUCING AREAS OF NATIONALIST CHINA, WAR-PERIOD, 1947, and 1948

In million metric tons
1,000,000

Area	War-Period ~~Output~~	1947	(Estimated) 1948
Manchurian Pockets	<i>average for</i> 1942-44 ~~avg.~~ 6.7	2.0	1.0
North Hopeh	1942 7.0	5.3	5.0
Lower Yangtze Valley	1942 2.7	1.8	2.0
Central Yangtze Valley	1942 2.2	1.0	1.3
Szechuan	1942 2.9	2.0	2.0
Southwest China	1942 0.8	0.5	0.5
Taiwan	<i>average for</i> 1941-42 ~~avg.~~ 2.8	1.2	1.6
<u>Total</u>	25.1	13.8	13.4

China's production of ~~the~~ export minerals (tungsten, tin, and antimony), ~~is likely to be~~ increased in 1948 over previous postwar years but still *remained* substantially below prewar levels. Production of these minerals has been hindered both by the governments' inability to replace mining equipment damaged or destroyed during the war and by the lack of adequate transport channels to export outlets. The progress toward recovery that has been made thus far is largely due to the fact that tungsten and tin are mined in areas well removed from military activity. The chief center of antimony mining in North Central Hunan, however, is now threatened by ~~the present~~ Communist advances. Comparative data on prewar and postwar production of these minerals are shown below, *in Table 4.*

little in caps

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Table 4. China's Annual Production of Export
Minerals 1935-37, ~~(Average)~~ 1947 and 1948
(metric tons)

<u>Mineral</u>	<u>1935-37 (Average)</u>	<u>1947</u>	<u>1948</u> <u>(Estimated)</u> ¹
Tungsten	12,800	6400	10,000
Tin	12,500	4000	6,500-8,000
Antimony	12,600	1900	3,000

1. ^{As estimated} by the National Resources ~~Board~~ Commission,

2. Manufacturing

The performance of the cotton textile industry, by far the largest segment of China's modern industry characterizes the conditions affecting manufacturing as a whole in 1948. Operable capacity remained at 3.8 million spindles, the same level as in 1947 and approximately one-third less than the prewar capacity. Of this total, more than half was located in Shanghai and an additional 15 ^{percent} in Tientsin and Tsingtao.

Output continued to be dependent on imported supplies as trade between cities and the cotton-producing interior^{or} remained at low levels. For the first half of the year production was maintained at the 1947 rate, ^{or about} ~~an amount~~ equal to 75 ^{percent} of the prewar level. During ^{the latter part of the year,} recent months, however, power shortages and price maladjustments curtailed operations in Shanghai, and the lack of raw cotton supplies resulted in sharp production cut-backs in the northern mills. ^{available} Data on ^{mill} ~~mine~~ consumption of raw cotton during 1948 as compared with 1946-47 and ^{the} prewar period are shown below in Table 5.

5. CHINA:
 Table ~~III~~ MONTHLY MILL CONSUMPTION OF RAW COTTON
 (bales)
 In

<u>Period</u>	<u>Consumption</u>
← Prewar Average	200,000
Aug ¹⁹⁴⁷ 1946-July Average	134,000
Feb ¹⁹⁴⁸ June 1948, Average	145,000
July, 1948	135,000
August, 1948	115,000-120,000

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double

C. Transportation and Communications

The course of the civil war in 1948 has had a markedly unfavorable effect on transport and transport facilities. Although operative rail mileage in South China was substantially increased, the mileage in Nationalist hands in North China and Manchuria dropped from 4,100 ^{Km} ~~miles~~ to 1,000 ^{Km} ~~miles~~, with the remaining mileage of reduced significance. The acquisition of shipping was slowed, as the total Chinese tonnage neared the prewar tonnage operating in the coastal and river trade; however, much of the shipping was commandeered by the military with the increase of military activity in North China and along the Yangtze, while private shipping, faced with shortages of fuel and supplies, found many operations unprofitable. A sizable increase in air traffic was due to shortages of rail and shipping facilities, the increasing number of Nationalist military "pockets", and the heavy government subsidization of the airlines. Transport facilities ~~have~~ deteriorated greatly in 1948 due to the heavy war-traffic demand and lack of replacement, while commercial traffic ~~has~~ found available facilities inadequate. Except for the Shanghai-Nanking-Hangchow Railroad, government transport has required heavy subsidies, ^{while} ~~which~~ private transport has not been generally profitable.

1. Railroads During 1948 there was a sharp reduction in operable railroad mileage in Nationalist hands north of the Yangtze, as the Communists seized the remaining lines in Manchuria, Shantung, and Shansi and parts of the Lunghai, Pinghan, Tsingpu, and Pingsui railroads. ^(See Table 6) The interruption of through lines has reduced the usefulness of the remaining lines. ^{a major example,} for instance, the destruction of a part of the rail connection between the Kailan mines and the port of Chingyangtao had reduced coal movement from mines to port to a trickle ~~for~~ by September. Military traffic accounts for the bulk of the rail movement north of the Yangtze, with commercial traffic reduced to a minimum.

In South and Central China completion of the Chekiang-Kiangsi and Nanking-Wuhu lines, together with progress on the Hunan-Kwangsi-Kweichow line, increased operating rail mileage. However, rail lines have been plagued by uncertain coal supplies, poor maintenance, inadequate funds, and shortages of equipment, and, apart from the profitable Shanghai-Nanking-Hangchow line, traffic has been spotty and heavily subsidized. Substandard construction and maintenance are reported to have contributed to a deterioration in the condition of these railroads and their operating efficiency.

Table 6. ESTIMATED OPERATING RAILWAY LINES IN NATIONALIST CHINA
(In ~~kms~~^{kilometers})

~~Area~~ Area	1938	November 1947	November 1948
Manchuria	8900	1200	00
North China ¹	5700	2900	1000
South & Central China	5300	4900	5500
Taiwan	3800	3800	3900
<u>Total</u>	23700	12900	10400 ~~5000~~

¹ Including the Lunghai Railroad.

^{North China}
2. Shipping. China's merchant marine expanded in 1946 and 1947 to the point where tonnage in 1948 was comparable with that operating in the prewar river and coastal trades. This rapid growth of the shipping industry, however, has been accompanied by operating difficulties. Much of the tonnage is overage and inefficient or ill-adapted to the particular requirements of the various river and coastal trades. Repair parts and facilities have been limited resulting in large amounts of idle tonnage. Moreover, uncertain supplies of fuel oil and coal - and for private firms their high cost on the market - have increased costs of operation.

Operations have been unprofitable also because of the nature of the shipping traffic. The increase in military movements in North China and on the Yangtze has resulted in increased military commandeering of vessels estimated at 55^{percent} of the total tonnage in October 1948. Military reverses have reduced commercial cargoes available especially in North China. Moreover the uncertainty of commercial shipping facilities on the Yangtze has increased the cost of domestic trade and reduced potential cargo available. Only in South China and Taiwan have conditions been stable enough to permit an increase in shipping activities.

3. Aviation. The tremendous increase in aviation activities during 1948 (See Table 7) is an indication of the inadequacies of other forms of transport. The number of besieged Nationalist "pockets" increased and their requirements became larger with the advance of the Communist armies, necessitating greater air traffic with these areas. The use of air facilities in other parts of Nationalist China was unusually heavy due to government subsidization of fares to the point where, in some months, receipts did not even cover gasoline costs. Under these conditions the demand for air transport has exceeded the capacity of the three airlines. Passengers and freight traffic increased substantially during 1948, to some extent because of the acquisition of additional capacity but ~~and~~ mostly because existing facilities were used more intensively. At various points during the year the lack of sufficient gasoline supplies constituted the limiting factor ~~to~~ⁱⁿ increased traffic.

Table 7. PASSENGERS CARRIED AND CARGO CARRIED BY CHINESE DOMESTIC AIRLINES,
1947 and January-May 1948

(MONTHLY AVERAGE)

	Passengers Carried		Cargo Carried (metric tons)	
	1947	Jan-May 1948	1947	Jan-May 1948
Chinese National Aviation Corporation	14,500	28,800	1,400	2,000
Private Air Transport Corp.	2,100	11,200	1,100	4,100
Central Air Transport Corporation	9,700	50,300 ^a	1,300	7,600 ^a
Total	26,300	90,300	3,800	13,700

^a Based on estimated traffic for January - March, 1948.

D. Internal Trade

Domestic trade in 1948 failed to recover from the depressed levels of 1946 and 1947, and in the latter part of the year collapsed disastrously under military reverses, unsuccessful government controls, and panic conditions resulting from the deterioration of the government's position. The year saw an increase in government participation and control of domestic trade, in an attempt to secure the necessary food and raw material supplies for the urban economy and to maintain exports. In the first part of the year such programs--notably the CRM and ECA-assisted food rationing program--gave hopes of stabilizing conditions in the cities. However, the steady deterioration of the Nationalist military position and the consequent loss of business morale combined to defeat the implementation of these programs.

1. The Flow of Industrial Materials and Export Commodities

Communist control over the trading hinterland of North China and Manchuria throughout 1948 coupled with continued disruptions of major rail lines in the area cut down the flow of commodities between city and countryside. The military embargo on consumer goods destined for rural areas, instituted as a measure of economic warfare, added to these physical barriers impeding internal trade. As long as farmers in the North found it difficult or impossible to exchange agricultural commodities for cloth and other urban manufactures, trade possibilities remained extremely limited. Under these conditions, raw cotton continued to be used largely for home spinning rather than for sale to urban mills, coal shipments to the cities were periodically interrupted and eventually cut off altogether, and North China's traditional export commodities such as hides, wool, and bristles

reached export outlets in reduced volume.

The effect of the war was also manifested in the internal trade of the Yangtze Valley. Military requisitions of river shipping during the high water period added to the cost and limited the volume of river traffic. Major export commodities, such as tung oil, could be moved only through the subsidization and direct control of government trading corporations, and food shipments to the cities were reduced in quantity.

2. Distribution of Food

Continued inflation and transport difficulties made it impossible to draw sufficient food to the cities through the market mechanism, with the result that the government at the end of the first quarter of 1948 entered upon a food rationing program designed to ensure the orderly procurement and distribution of urban food requirements. As part of the program, the U.S. ^{China Relief Mission} agreed to approximately match available domestic supplies with grants of foreign rice, wheat, and wheat flour, administered through the CRM and subsequently the ECA, but contingent on the successful functioning of domestic procurement and the rationing mechanism. As of July 1, 1948 the ^{China Relief Mission} CRM had distributed 100,000 m.t. of rice and 50,000 m.t. of flour under the program. Tentative ECA plans called for the distribution through March 1949 of 135,000 m.t. of flour to North China cities and 275,000 m.t. of ~~flour~~ rice to Shanghai, ^{Canton} ~~Tientsin~~, ^{Swatow}, and ^{These} ~~Tsingtao~~. Then projected shipments amounted to approximately 50 ^{percent} of total requirements in these cities.

During the first few months of its operation, the ration program managed to reduce excessive price fluctuations (within the context of

continued inflation) and on the whole worked out successfully.

Subsequent difficulties, however, impaired its continued effectiveness .

Ration prices under the August economic reform measures were set well below market prices with the result that administrative irregularities tended to increase and the dependence of the program on governmental subsidies made excessive. In addition, the Chinese authorities failed to act quickly in procuring domestic supplies during the period immediately following the harvest and their subsequent attempts to purchase food were largely frustrated both by the lack of sufficient appropriations and by the disparity between official and black market prices. ~~At the present time, except for Canton and Swatow, available supplies are short of ration requirements and for future distribution has become highly uncertain.~~

~~At the end of the year food shortages~~
~~Some urban food shortages during the latter part of the~~
~~year necessitated the delivery in 1948 of ECA shipments~~
~~roughly scheduled for the first quarter of 1949.~~

E: Foreign Trade

China's ^{recorded} foreign trade during 1948 reflected a sharp reduction in the import balance from the high levels reported in the previous postwar years. Imports and exports on commercial account appear to have been approximately in balance during 1948 as contrasted with a trade deficit of over ^{US\$} 200 million in 1947. This reduction in the trade deficit however is exclusive of imports on ^{government} account and of the substantial volume of commodities shipped to China under the provisions of the U.S. ^{Foreign Relief Program} ~~ERP~~ and the ECA.

1. Exports

China's exports during the ~~first 8 months of~~ 1948 continued to be plagued by the same difficulties that have been in evidence through most of the postwar period. Producing areas were cut off from export outlets because of the civil war and chaotic financial conditions tended to discourage the production of export commodities and to keep the volume of smuggling at high levels. For most of the period the government continued to sacrifice exports for whatever support an over valued exchange rate could give to its rapidly depreciating currency. Two abortive attempts to improve the situation may be noted. At the end of May the government instituted a modified exchange linkage plan designed to narrow the gap between the exchange rate at which official trade was conducted and the black market rate. Although this plan resulted in an initial stimulation of exports, its effects proved temporary as the increase in domestic prices outstripped the rate of increase in the market exchange rate. Similarly, exports were encouraged during the short period of price stability following the introduction of the gold Yuan in August, but here again the eventual breakdown of price controls once more in-

troduced a spread between the official and black market exchange rates *and resulted eventually in the re-institution of the exchange linkage system.*

Under these conditions exports ~~during the first 8 months of 1948~~ *estimated at U.S. \$180 million in 1948,* remained at approximately the same low level as that recorded in 1947.

Although their value in U.S. dollars (converted from CN dollars at the ~~official~~ exchange rates) was somewhat lower than the rate in 1947, volume seems to have been approximately the same. In general, those

commodities produced in areas removed from the fighting zones or aided substantially by government subsidization, such as tung oil, egg products, and cotton yarn and piece goods, were exported in relatively high volume. As a whole, however, if adjustment is made for changes in prices, China's exports during the first eight months ⁱⁿ of 1948 were probably less than 40% ^{percent} of the prewar volume.

2. Imports

Commercial imports dropped sharply during the first 8 months ^{during} of 1948 in response both to the government's stringent foreign exchange positions and increased arrivals of ECA commodities. Projected allocations of foreign exchange for essential imports during Feb-July 1948, were only 50% of the quotas established during 1947, and these were reduced by an additional 40% for the period Aug 1948-Jan 1949. Actual commercial imports, ^{actual imports} ~~as recorded in the Customs~~ ^{are estimated to have} ~~averaged~~ ¹⁵ million during Jan-Aug 1948 ^{per month in 1947} as compared with an average rate of U.S. \$ 40 million per month during 1947. Imports dropped noticeably beginning in May 1948 as ECA commodities began to arrive.

The ECA Program assumed significant proportions as a factor in China's total imports beginning in June 1948. Shipments were limited to rice, wheat flour, and raw cotton and amounted to approximately U.S. \$ 72 million, exclusive of freight charges, as of the end of November. For the Period June through October 1948, arrivals in China averaged approximately U.S. \$ 15 million per month, or an amount equal to 75% of China's average monthly imports on commercial

2. Imports

Commercial imports dropped sharply during 1948 in response both to the ^{government's} stringent foreign exchange position and to the arrival of USFAP ^{Foreign Relief Program} and ECA commodities.

Projected allocations of foreign exchange for essential imports during ^{February} July 1948 were only 50% ^{percent} of the quotas established in 1947, and then were reduced by an additional 40% ^{percent} for the period August ¹⁹⁴⁸ - January ¹⁹⁴⁹.

Actual commercial imports are estimated at approximately U.S. \$ 180 million in 1948 as compared with over U.S. \$ 450 million in 1947. At the same time, however, commodity imports under the ^{Foreign Relief Program} USFAP totaled U.S. \$ 45 million and ECA shipments ~~approx~~ approximately U.S. \$ 170 million.

Commercial imports dropped noticeably beginning in June 1948 as ECA commodities began to arrive in significant volume. Shipments under the program during 1948 were limited to rice, wheat flour and raw cotton while additional ECA funds were used to reimburse

the Central Bank of China for its expenditures on
petroleum imports.